COMMITTEE ON FINANCE
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Max Baucus, Chairman
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Floor Statement of Senator Max Baucus (D-Mont.)
Regarding Housing Amendment

Confucius said: "The strength of a nation derives from the integrity of the home."

Today we are here to protect the strength of our Nation. We are here to help keep families in their homes.

The tax provisions in the amendment before us are meant to stabilize the housing market and boost our economy. They are designed to provide temporary, targeted, and timely tax relief for the housing market.

In 2007, one percent of all homes were in default. That's more than 1.2 million homes. The Nation's 2007 foreclosure rate was two and a half times what it was in 2005.

In my home state of Montana, the 2007 foreclosure rate was up almost 30 percent from 2006 and more than 50 percent from 2005.

And the number of foreclosures continues to grow. Nationwide in May, the number of homes receiving a foreclosure-related notice was up seven percent from the month before, and up 48 percent from a year before. This means that one in every 483 American households received a foreclosure notice last month. That's a record high.

Behind every foreclosed property, there's a family. There's a family losing its home. And there's a family losing a piece of its future.

Our Nation's current economic weakness is largely a result of the weak housing market. More than five million households now owe more on their mortgage than their house is worth. That's about one out of every ten home mortgages. As home prices continue to fall, these numbers will only get worse.

This amendment is a response. It would provide tax relief for homeowners, for homebuyers, and for homebuilders.

First, it would provide an additional $11 billion of mortgage revenue bonds so that state housing agencies can immediately respond to the housing downturn. This would help homeowners avoid foreclosures. And it would increase first-time home purchases.

–3 more–

Mortgage revenue bonds are tax-exempt bonds issued by state and local housing finance agencies. The bonds help those agencies to provide mortgages for homebuyers at below-market rates of interest.

The virtual collapse of the subprime and affordable mortgage markets has increased the demand for mortgages financed through mortgage revenue bonds. Increasing the cap on mortgage revenue bonds and providing states the option to refinance subprime mortgages can allow state housing agencies to immediately respond to homes at risk of foreclosure.

And additional mortgage revenue bonds can also help clear out the glut of homes on the market. Additional mortgage revenue bonds can lead to more first-time home purchases.

The amendment also would provide broad-based tax relief by expanding the number of people who may deduct property taxes. Currently, homeowners are allowed to deduct local real estate property taxes from their Federal tax returns only if they itemize. According to the Joint Committee on Taxation, more than 28 million taxpayers pay property taxes, but do not itemize.

This proposal would allow these 28 million taxpayers to deduct the amount of their property taxes, up to $500 for individuals and $1,000 for married filers. They could take this deduction even if they did not itemize their deductions.

This change would benefit low-income individuals. It would benefit those who have already paid off their mortgages and thus don't have that reason to itemize. It would benefit young families just starting out. And it would benefit senior citizens.

The Congressional Research Service estimates that nearly 130,000 property-tax payers could benefit in my home state of Montana alone.

Listings of distressed properties dominate the real estate market. In the first quarter of this year, 1 out of every 4 home sales was a distressed sale. The papers are full of foreclosures and vacant new homes.

As of April 2008, there were more than 456,000 newly-constructed homes for sale on the market. That's more than ten months worth of supply. And according to the National Association of Realtors, four and a half million existing homes are for sale on the market.

To help reduce the excess inventory of foreclosed, vacant, and existing homes, the amendment includes a one-time homebuyer credit of $8,000.

The credit would apply to first-time homebuyers. It would begin to phase out for homebuyers with incomes of $75,000 for individuals and $150,000 for joint filers. The purchase of the home would have to be on or prior to April 1, 2009. And the credit would be repaid over 15 years at zero percent interest.

–2 more–

The short-term nature of this credit is critical. It would help to provide immediate stimulus to put homebuilders, and the housing industry, back on track. But it would also avoid over-subsidizing the housing industry.

The amendment would also make critical improvements to the Low Income Housing Tax Credit program. This program is the engine that drives low-income rental housing in America. But it is long overdue for a tune up.

The amendment would increase the total number of credits available by ten percent per state. And the amendment would broaden the investor class by allowing the credit to be taken against the AMT.

The state housing finance agencies are good stewards of this Federal program. And the amendment would give these agencies more discretion to allocate credit dollars to projects that the state deems a high priority.

These tune-ups would help to make this engine run more smoothly. And they would lead to an increase in affordable rental housing across the country.

The amendment would also allow taxpayers to choose to take a refund of AMT or R&D credits in place of bonus depreciation deductions. Companies without federal tax liability cannot use the tax deductions. But under this amendment, they could take advantage of a refund. And they could use that funding invest in capital assets. And that would create and maintain jobs.

These proposals would be fully paid for by responsible offsets. As much as possible, we should avoid increasing our national debt and our reliance on foreign creditors.

The amendment includes a House-passed proposal to close a loophole involving the sale of second homes. It would apply to houses that are used both as a principal residence and for other purposes. An example would be a principal residence that also was used as rental property.

Under current law, an owner can exclude income from the sale of that second home. The owner just needs to have lived in the home for two out of the last five years.

The proposal would limit the gain that the owner could exclude from income when the owner sells the residence. The idea behind the proposal is that a personal-income exclusion should be limited to the personal use of the residence.

A second pay-for would require information reporting on credit card transactions. It would also apply to many on-line transactions. Merchant banks that settle credit- and debit-card sales would report annual gross payments to the businesses making the sales and to the IRS. Third-party networks that facilitate electronic transactions would do the same.

–1 more–

In response to concerns about possible burdens this proposal could put on small e-business sellers, the proposal contains a de minimis exception. The exception excludes from the reporting requirements operations with aggregate sales of $10,000 or less a year. And the exception would also exclude a volume of 200 transactions or fewer.

The proposal would give ample time to banks and others so that they can program their systems and to verify the information that they need from sellers before issuing the information documents.

This proposal does not raise taxes on anyone. These information reports would just cause people to file more-accurate returns.

The administration has included this proposal in its annual budget for the last three years. Earlier this year, Senator Grassley and I released a bi-partisan staff draft of the proposal for public comment. Working together with the House, we have taken these comments into account to develop a proposal that reflects industry practices and will improve tax compliance.

The amendment would also enhance several IRS penalties. These penalties encourage the filing of timely and accurate tax and information reporting returns. These filings are the cornerstones of effective tax administration and voluntary tax compliance.

A lot of irresponsible actions led to the current housing crisis. But now, a lot of responsible homeowners, homebuyers, and homebuilders are caught up in the mess. And they cannot afford to wait any longer for our help.

The tax provisions in this amendment would go a good way to address the housing downturn and economic weakness in our country.

So let us help to keep folks in their homes. Let us thus thereby help to sustain the economic strength of the nation. And let us adopt this housing amendment.

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